Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	
Access Charge Reform	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94-1
Low-Volume Long Distance Users	CC Docket No. 99-249
Federal-State Joint Board On Universal Service	CC Docket No. 96-45

COMMENTS OF VERIZON[1]

The Commission should retain the $650 million support amount in the interstate access support mechanism because it provides explicit funding for most of the revenues that would not be recovered from subscriber line charges due to the caps in the CALLS plan and because it is supported by the studies of the implicit support for universal service in access charges. Recovery of this amount through the universal service fund is more economic than continuing to recover it through carrier common line charges and presubscribed interexchange carrier charges ("PICCs"). By allowing the Commission to phase out these rate elements, the $650 million support mechanism promotes the Commission's access charge reform policies and its ultimate goal of moving to market-based rates.

[1] The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

I. Background

In the *CALLS Order*,[2] the Commission adopted an integrated plan for interstate access charge reform and universal service support of interstate access charges that was designed to bring lower rates and less confusion to consumers and to create a more rational interstate rate structure. The Commission emphasized that it was a *transitional* plan designed to move usage-based access rates towards cost while dealing with the implicit subsidies that support universal service. ***See*** *CALLS Order*, ¶ 26. Since the Commission found that these implicit subsidies could not be eliminated without raising subscriber line charges above the increased caps in the plan, the Commission established a universal service support mechanism to provide explicit recovery of these revenues through a fund that would be capped at $650 million per year.

The CALLS plan provided, among other things, that the annual X-factor reductions would be applied to the switching and switched transport rate elements until those rate elements reached a target level. ***See*** *CALLS Order*, ¶ 176. In addition, it provided for increases in per-line subscriber line charges, as well as for geographic deaveraging of those charges, to phase out PICCs and to allow more cost-based recovery of the non-traffic sensitive costs of common lines. ***See*** id., ¶ 78. Nonetheless, due to the caps that the Commission adopted for subscriber line charges, there would remain a significant amount of common line, marketing, and transport interconnection charge revenues (collectively, "CMT" revenues) that would continue to be recovered through carrier common line charges and PICCs under price caps. Since the Commission found that these elements represented implicit subsidies of universal service, the

[2] *Access Charge Reform*, 15 FCC Rcd 12962 (2000) ("*CALLS Order*"); *aff'd in part, rev'd in part, and remanded in part*, *Texas Office of Public Util. Counsel et al. v. FCC*, 265 F.3d 313 (5th Cir. 2001) ("*TOPUC*").

Commission decided that most of these revenues should be recovered by a new universal service support mechanism. ***See*** id., ¶¶ 195-196. The Commission adopted the CALLS proposal for a $650 million universal service support mechanism that would be portable to competing carriers. Although the Commission found that this amount would be less than the "gap" between capped subscriber line charges and permitted CMT revenue, the Commission found that it would provide "explicit, predictable, and sufficient" support for universal service. ***See*** id., ¶¶ 201, 205.

On appeal, the Court reversed and remanded the *CALLS Order* for further analysis and explanation of the $650 million amount, finding that the Commission had not explained how it actually derived that figure. ***See*** *TOPUC* at 328. The Court stated that the Commission had failed to explain how it weighed the various cost studies that were filed in the proceeding and to which it referred in adopting this amount. In response, the Common Carrier Bureau issued a public notice asking for comments on the $650 million support available under the universal service mechanism and on the use of cost models or other studies or analyses to determine whether this amount best serves the Commission's universal service goals. ***See*** Public Notice, DA 01-2817 (rel. Dec. 4, 2001).

II. The Commission Should Retain The $650 Million Universal Service Fund As A Reasonable Transitional Mechanism To Recover Most Of The "Gap" Between Capped Subscriber Line Charges And CMT Revenues.

The Commission should find that the $650 million universal service fund in the CALLS plan is a reasonable transitional limit on the amount of revenues that will be recovered through the universal service support mechanism because it covers most of the "gap" between capped subscriber line charges and the permitted CMT revenues that would otherwise be recovered through carrier common line charges and PICCs. Since the Commission has concluded that carrier common line charges and multi-line business PICCs include implicit support of residential and low-volume customers, replacement of these revenues through an explicit universal service mechanism is consistent with section 254 of the Act and with the Commission's universal service policies. The Commission should not rely on cost studies on the high end of the range submitted by various parties because they are inconsistent with the actual amount of costs that are recovered through uneconomic rate elements in the existing access charge structure.

The CALLS plan moved rates for common line, switched access and transport services towards more economic cost recovery by raising subscriber line charges and by reducing average traffic sensitive rates. In particular, the Commission sought to eliminate carrier common line charges, PICCs, and other rate elements that were applied in a non-economic manner and that had resulted in undesirable impacts on telephone usage and cost recovery by interexchange carriers. ***See*** *CALLS Order*, ¶¶ 76-78. However, due to the transitional caps on increases in subscriber line charges under the plan, a large amount of revenues would continue to be recovered through these uneconomic rate elements, creating a continuing subsidy of non-traffic sensitive costs that are caused by end users rather than by carriers. Since the caps on subscriber line charges prevented price cap carriers from recovering all of their permitted CMT revenues from subscribers, the Commission found that it would be consistent with the objectives of the Telecommunications Act of 1996 to create a new universal service support program to replace the implicit recovery of these costs through access charges with an explicit recovery mechanism. ***See*** id., ¶ 195.

In its access charge reform orders, the Commission adopted a market-based approach to bring rates to competitive levels and it specifically disavowed a prescriptive approach that would set access charges based on some measure of economic cost. ***See*** id., ¶ 178. In addition, in the *CALLS Order* the Commission found that trying to target rates to cost at this juncture would necessitate a lengthy and complex proceeding that would stand in the way of immediate relief. ***See*** id. For these reasons, the Commission adopted the CALLS plan as a five-year transitional mechanism, with the ultimate goal of relying on competition to constrain rates. Trying to tie the recovery of universal service subsidies to an exact calculation of cost would put the Commission back in the quagmire of evaluating contradictory cost studies – a position that it sought to avoid through the CALLS plan – and it would turn the Commission away from its goal of promoting market-based pricing. The Commission could rely on the existing cost studies already in the record as supporting evidence that the $650 million fund is reasonable, but it should rely primarily on the fact that this amount recovers more than approximately 70 percent of the "gap" between capped subscriber line charges and permitted CMT revenues.

While the Commission correctly decided in the *CALLS Order* not to try to quantify support flows with precision or to use cost studies to target rates (***see*** *CALLS Order*, ¶¶ 178, 201), it is reasonable that it gave some weight to cost studies that do not exceed the "gap" between SLC caps and CMT revenues, which represents the actual implicit support for universal service. In the CALLS proceeding, commenters submitted various cost studies to estimate the amount of implicit support for universal service in existing interstate access charges, comparing either embedded or forward-looking interstate costs to certain assumptions for capped subscriber line charges and estimating the difference. The results ranged from a low of $250 million to a high of $3.9 billion. ***See*** *CALLS Order*, ¶ 199.

Verizon estimates that, at the time of the CALLS implementation in mid-2000, this gap, defined in the Commission's rules as the "Nationwide Total Above Benchmark Revenues," was in the $800 to $900 million range. ***See*** 47 C.F.R. § 54.806(b). The $650 million fund was not intended to cover all of that gap (***see*** *CALLS Order*, ¶ 205), but it recovers enough of it to eliminate carrier common line charges and PICCs during the five year transitional period for the majority of the jurisdictions, thereby allowing the Commission to achieve its goals of largely reducing the ill-effects of rate elements that do not reflect the manner in which costs are incurred. Sizing the fund well below the total size of the gap is a reasonable approach, because the gap will fluctuate over time, and it would not be consistent with the Commission's transitional goals for the fund to exceed the gap and cause other rate changes. It is reasonable for the Commission to allow a relatively small cushion during this period because, as the Commission recognized, identifying implicit support is an imprecise exercise, and withdrawing support would be more difficult that supplementing it. ***See*** id., ¶ 201. Moreover, since most of the gap is covered by the $650 million fund, it allows portability of most of the previously implicit support of universal service to competing carriers through the new, explicit fund. ***See*** id., ¶ 209.

Conclusion

For the foregoing reasons, the Commission should reaffirm its decision to adopt a $650 million universal service fund based on its reasonable assessment of the cost studies on the record and on a finding that a fund of this size would promote the Commission's access charge reform and universal service goals.

Respectfully submitted,

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ATTACHMENT A

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.